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FROM: BERLIN

TO: Secretary of State

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SENT DEPARTMENT 371, BONN 325, POLAD USAREUR 111, REPEATED INFORMATION MOSCOW 105, PARIS, LONDON UNNUMBERED.

REF: OURTEL 294 TO BONN, 341 SECSTATE

BERLIN REACTION FOR PERIOD NOV 16 TO 21

A. PUBLIC REACTION

SLIGHT DETERIORATION POPULAR MORALE, WHICH PROBABLY INEVITABLE IN LIGHT CONTINUING PRESSURE ON BERLIN, DISCERNIBLE DURING THIS WEEK IN FORM OF UNEASY WAIT-AND-SEE ATTITUDE. PEOPLE GENERALLY IGNORANT OF WHAT CRISIS MEANS, UNCERTAIN RE WHAT MAY COME, BUT BRACED BY FIRMNESS ALLIED ATTITUDE. FEAR OF WAR MUCH LESS THAN DURING HUNGARIAN-SUEZ CRISIS AND POSSIBLY LESS THAN DURING NEAR-FAR EAST CRISES. MAIN FEAR SEEMS TO BE THAT WEST MIGHT NOT (REPEAT NOT) EMPLOY ITS FULL DETERRENT CAPABILITY DESPITE FEELING THAT WEST CANNOT AFFORD GIVE UP BERLIN WITHOUT SUFFERING IRREPARABLE PRESTIGE AND POWER DAMAGE.

SIGNS OF UNEASINESS APPARENTLY DIRECTLY RELATED TO WHAT IS REGARDED AS ALLIED INDECISION ON HOW TO HANDLE QUESTION POSSIBLE GDR CONTROLS AND PRESS SPECULATION EMANATING FROM WASHINGTON THAT WEST WILLING DEAL WITH VOPOS AS SOV AGENTS. ANOTHER SOURCE OF SPORADIC UNEASINESS STEMS FROM BERLINERS RECEIVING ALARMIST RUMORS FROM WEST GERMANY. ON OTHER HAND, A GOOD MANY PEOPLE ASK "WHY ALL THIS FUSS?" AND CRITICIZE BRANDT'S STATEMENTS--DESIGNED TO ACHIEVE ATTITUDE FIRMNESS AND PREPARE PEOPLE FOR SIEGE IN WAR OF NERVES--AS CAUSING UNDUE EXCITEMENT.

EXAMPLES PUBLIC

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-2- 371, NOVEMBER 21, 10 PM, (SECTION ONE OF TWO), FROM BERLIN

EXAMPLES PUBLIC COMPOSURE NOTED WHEN PARLIAMENTARY DEPUTIES WENT BACK TO BUSINESS AS USUAL FOR TWO DAY SESSION TO WIND UP LEGISLATIVE BUSINESS BEFORE DEC 7 ELECTIONS FOLLOWING BRANDT'S ADDRESS (SEE OURTEL 320 TO BONN, 367 TO DEPT). REPRESENTATIVE CROSS SECTION OF POLITICAL LEADERS REPORTED GOOD ATTENDANCE AT ELECTION RALLIES AND UNIMPAIRED OR EVEN HARDENED ANTI-COMMUNISM OF POPULATION. ISOLATED VOICES EXPRESSED FEAR THAT SOME PEOPLE MAY VOTE SED (REPEAT SED) IN EFFORT "REINSURE" THEMSELVES BUT CONCENSUS OF OPINION IS SED WILL LOSE COMPARED WITH 1954 VOTE. POLITICAL LEADERS RECOGNIZE THAT IDEA OF SUCH "REINSURANCE" THROUGH SECRET VOTE FALLACIOUS AND THAT MORE SIGNIFICANT PROOF OF REINSURANCE TENDENCY WOULD BE INCREASE IN MEMBERSHIP SED OR GERMAN SOVIET FRIENDSHIP SOCIETY, OF WHICH THERE NO (REPEAT NO) INDICATION. THERE ALSO NO (REPEAT NO) EVIDENCE THAT COMMUNIST PROPAGANDA EFFORT TO CONVINCE PEOPLE OF EVENTUAL ALLIED WITHDRAWAL TAKEN SERIOUSLY.

GROUP MOST NERVOUS BECAUSE OF CURRENT SITUATION IS WEALTHIER STRATUM OF MIDDLE CLASS (SEE ECONOMIC BELOW). ISOLATED REPORTS ALSO INDICATE UNEASINESS AMONG UNIVERSITY PROFESSORS AND OTHER GROUPS OF THE INTELLIGENTSIA WHO PERCEIVE THE IMPLICATIONS OF SOV THREATS AND HAVE DOUBTS THAT WEST WILL REMAIN FIRM.

B. OFFICIAL REACTION.

MOST OFFICIALS COMPOSED BUT TENSE, MORE APPREHENSIVE THAN LAST WEEK, SCRUTINIZING CAREFULLY EVERY ALLIED (MORE SPECIFICALLY US) REACTION. FOCUS OF OFFICIAL CONCERN IS ALLIED POLICY IN EVENT VOPO SUBSTITUTION FOR SOV CHECKPOINT PERSONNEL SIMILAR TO THAT EXPRESSED BY AMREHN (SEE OURTEL 315 TO BONN, 363 TO DEPT) AND TO ALLIED PLANS RE FEASIBILITY CONTINUING AIR SERVICE IN EVENT SOV WITHDRAWAL BASIC. TODAY'S PRESS STORIES FEATURING HARDENING WASHINGTON LINE AND CONSIDERATION OF USE OF FORCE BY ALLIES HAD UPLIFTING EFFECT. BERLIN OFFICIALS ALSO PLEASED BY PRESS REPORTS ON BRITISH PUBLIC REACTION, ESPECIALLY APPARENT WILLINGNESS STAND BY BERLIN IN CONTRAST TO LUKEWARM BRITISH PUBLIC ATTITUDE RE GERMANY APPARENT DURING HEUSS VISIT.

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FROM: BERLIN

TO: Secretary of State

SS: NO: 371, NOVEMBER 21, 10 PM (SECTION TWO OF TWO)

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SENT DEPARTMENT 371, BONN 325, POLAD USAREUR 111, REPEATED INFORMATION MOSCOW 105, PARIS, LONDON UNNUMBERED.

HERTZ AND OTHER ECONOMIC EXPERTS REPORT TO MISSION OFFICERS THAT CONFIDENCE OF BERLIN BUSINESS COMMUNITY WILL DEPEND ON CONTINUING EVIDENCE ALLIED (MORE SPECIFICALLY US) DETERMINATION REMAIN BERLIN.

RE ELECTION CAMPAIGN, BRANDT CONFIRMED TO MISSION OFFICER POLICY OF TONING DOWN SPD-CDU ATTACKS ON EACH OTHER (OURTEL 294 TO BONN, 341 TO DEPT) BUT SAID DECISION TO STOP CAMPAIGN WOULD NOT RPT NOT BE TAKEN UNLESS SITUATION DETERIORATED CONSIDERABLY. OTHERWISE PUBLIC MIGHT BELIEVE SITUATION MORE CRITICAL THAN IT ACTUALLY IS.

AIR C. ECONOMIC REACTION

ECONOMIC EFFECTS OF CURRENT SITUATION BECOMING MORE NOTICEABLE IN BERLIN BUT NOT RPT NOT YET SERIOUS. BUSINESS COMMUNITY APPEARS TO BE SUFFERING SOME ANXIETY AND LOSS OF CONFIDENCE.

1) STOCK MARKET DECLINED ON AVERAGE ABOUT 10 PERCENT DURING WEEK, BUT SHOWED SIGNS RECOVERY TODAY. UNLIKE LAST WEEK'S INITIAL DECLINE, THIS DECLINE WAS DUE PRIMARILY TO SALES BY WEST GERMANS AND BERLINERS. HOWEVER, MANY OBSERVERS FEEL SHARE VALUES HAD BEEN HIGHLY INFLATED AND HENCE DISPROPORTIONATELY SENSITIVE TO DISTURBANCE. FURTHERMORE, WEALTHIER

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GROUP MORE NERVOUS THAN OTHER GROUPS. ACCORDING TO ECONOMICS SENATOR HERTZ THERE IS NOW MORE ANXIETY AMONG THE WEALTHY IN PAST DAYS THAN AT TIME OF BLOCKADE, OUTBREAK OF KOREA OR SUEZ CRISES.

2) WHILE THERE HAS BEEN VIRTUALLY NO RPT NO SCARE BUYING AT RETAIL STORES, THERE HAVE COMMENCED CASH WITHDRAWALS FROM BANKS AND TRANSFERS OF ACCOUNTS TO WEST GERMANY. WHILE THESE HAVE NO SERIOUS EFFECT ON LIQUIDITY OF BANKS AND ARE ONLY FRACTIONAL IN VOLUME (LESS THAN DM 1 MILLION A DAY) THEIR SIGNIFICANCE LIES IN FACT THAT WITHDRAWALS HAVE FOR PAST FIVE DAYS EXCEEDED DEPOSITS. AT OUTBREAK OF KOREAN WAR, DURATION SUCH EXCESS WAS THREE DAYS; IN SUEZ CRISIS ONE DAY. ON INITIATIVE OF CENTRAL BANK, BANKS BEGINNING TO SCRUTINIZE LARGE WITHDRAWALS BUT THERE NO OFFICIAL CONCERN AS TO ABILITY BANKING SYSTEM TO MEET ANY EMERGENCY.

3) EAST MARK EXCHANGE IN TERMS OF WEST MARKS IN WEST BERLIN HAS IMPROVED FROM 430 TO 390 PER 100 DM WEST DURING WEEK. THIS APPARENTLY CAUSED BY 1) WITHDRAWALS BY EAST RESIDENTS OF PERSONAL ACCOUNTS IN WEST BERLIN BANKS AS PROTECTION AGAINST POSSIBLE SEALING OF BORDERS AND 2) SMALL DECLINE IN REFUGEE FLOW THIS WEEK WITH CONSEQUENT REDUCED OFFERINGS OF EAST MARKS.

4) IT IS STILL TOO EARLY TO DETERMINE EXTENT TO WHICH ORDER PLACING AND NEW INVESTMENTS AFFECTED, ALTHOUGH IT IS ALMOST CERTAIN THAT THEY WILL BE ADVERSELY AFFECTED IF CRISIS ATMOSPHERE CONTINUES LONGER. THERE ARE SCATTERED RELIABLE REPORTS OF DROP IN ORDERS AND POSTPONEMENT OF DELIVERIES TO WEST BERLIN FOR FEAR OF NON-PAYMENT. ON OTHER HAND WE HAVE BEEN TOLD OF INDIVIDUAL DECISIONS TO PROCEED WITH INVESTMENT PLANS DESPITE CURRENT SITUATION, INCLUDING DM 5 MILLION NECKERMAN INVESTMENT.

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